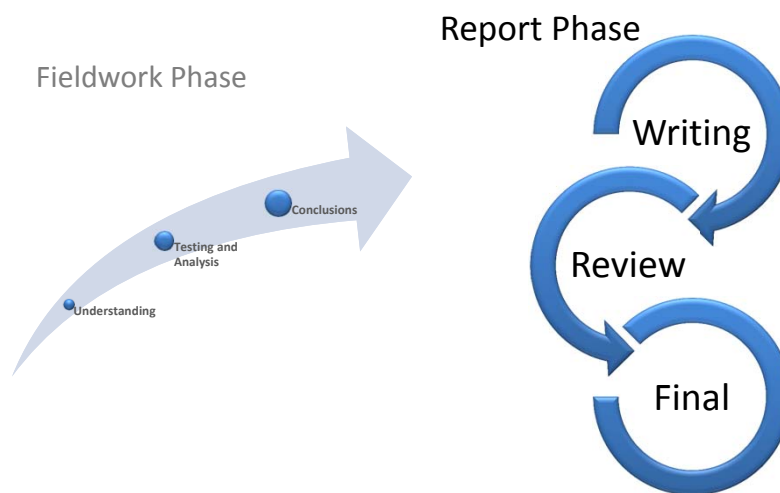


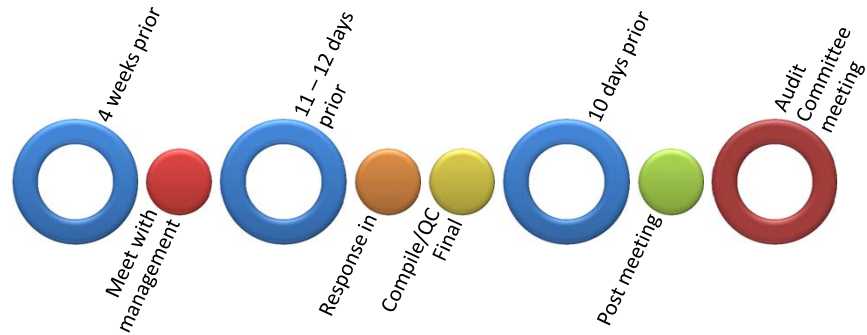
# Overview of Audit Report Process

What is involved in producing a final  
audit report?

## Audit Process



## Timeline to Meeting Date



## WRITING the Report

### Background

- Context: who, what, where, why/how much is the audit about?

### Objectives, Scope & Methodology

- Why, what time period/other limits, how did we audit?
- Auditing standards

### Findings & Conclusions

- What were the results?

## DRAFT Report

- Draft = an audit workpaper, required part of the audit process.
- Final report = prepared for Council/public.

“Working papers and other audit files that are maintained by the city or town auditor are not public records and are exempt from title 39, chapter 1. Any audit report prepared for or presented to a city or town, whether by city or town auditor, the auditor’s authorized representative or a consultant, is a public record subject to title 39, chapter 1.” Arizona Revised Statutes § 9-305(B)

## DRAFT Report

- Auditing standards require the auditor to request a management response
- City Code incorporates this - audit report shall include (SRC §2-126) :

Statements of response submitted by the audited department, board or agency

A concise statement of the corrective actions previously taken or contemplated...and a time table for their accomplishment

## DRAFT Report

- City Code also requires management to respond to the draft report (SRC 2-125):


A final draft of the audit report will be forwarded to the audited agency ... for review and comment ... **before it is released**. The agency **must respond in writing** specifying agreement... or reasons for disagreement..., plans for implementing solutions...and a time table to complete such activities. ...

The agency response must be filed...**within 15 calendar days**...(section continues with provisions for extensions)


**BACKGROUND**

In September 2012, the City contracted with Hunter Contracting Co. for the construction of the Scottsdale Road Improvements project, Phase 1. This project was to improve Scottsdale Road between Thompson Peak Parkway and Pinnacle Peak Road, with the first phase primarily constructing a bridge over Rawhide Wash and relocating utilities, along with water and sewer line improvements. (Figure 1 illustrates Phase 1's location and results.) Future phases are expected to widen Scottsdale Road, add bicycle lanes, sidewalks and medians, and make other improvements.

Figure 1. Aerial View of the Project Location



Rawhide Wash Detail 2010



**OBJECTIVES, SCOPE, AND METHODOLOGY**

An audit of a selected construction contract was included on the City Council-approved FY 2014/15 Audit Plan. The audit objective was to review the procurement, compliance with contract terms and contract administration of a construction contract. After reviewing the Capital Improvement Plan budget for the past two fiscal years to identify larger projects that had been completed within the past year, we selected Scottsdale Road Improvements, Phase 1, for this audit.

To understand the elements of the selected construction project, we reviewed the following agreements between the City and Hunter Contracting Co.:

- Contract No. 2012-127-C05, Pre-Construction Scottsdale Road Improvements, Phase 1
- Contract No. 2012-146-C05, CMAR Construction Improvements, Phase 1

To gain an understanding of existing requirements and standards, policies and procedures:

- Relevant sections of Arizona Revised Statutes (Improvements) particularly Chapter 6 pertaining Services, Construction Services, Engineering Services, Architect Services and Land Surveying Services.
- City Procurement Code Section 92-180.2(B) Procurement of Architects, Engineers, and Consultants
- City Administrative Regulations (AR) including AR 2-214 Contract Change Orders and Contract Modification
- CPM Project Management Guide
- Maricopa Association of Governments Arterial Life

Contract Design Phase Services,

**FINDINGS AND ANALYSIS**

1. Inadequate review of pay requests and contract changes resulted in overpayments totaling about \$275,000.

Stronger controls over the review of pay requests are needed to ensure appropriate contract payments. Our audit found that contractor pay requests were not checked for calculation errors, project costs were not tracked, and supporting documentation for cost proposals was not closely reviewed, resulting in overpayment to the CMAR.

A. Capital Project Management (CPM) staff approved several contract changes during the course of the Phase 1 project. By better tracking the approved changes and reviewing costs, CPM could have avoided a \$68,500 overpayment.

For this project, there were 14 work and cost changes approved totaling about \$1 million. The owner's contingency and savings from the original GMP (\$464,647) plus unused allowances and unit quantities (\$312,840) covered most of these costs. CPM approved a \$318,789 change order which increased the contract price to \$9,537,084 as shown in Table 2 on page 12.

However, including quantity adjustments and other project savings, the original work and approved changes totaled only \$9,468,590. Based on email communication in the project file, the CMAR's representative noted the variance and questioned the revised GMP amount, but the CPM project manager still paid the full contract price, resulting in an overpayment of \$68,494.

Owner's Contingency is budgeted into the Guaranteed Maximum Price (GMP) to cover potential cost increases resulting from City-directed changes or unforeseen site conditions.

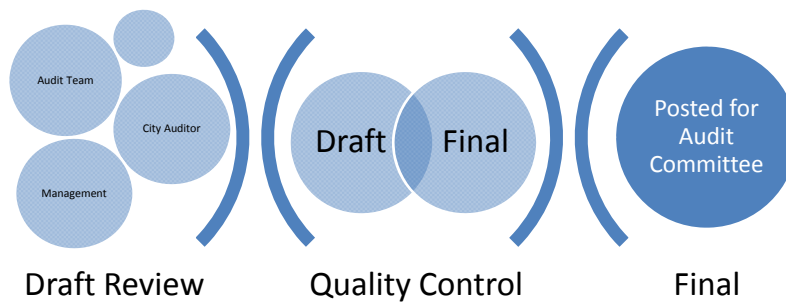
Construction Manager At Risk (CMAR) is the contractor hired to serve as construction manager and general contractor to oversee project construction.

Guaranteed Maximum Price (GMP) is summarized in Figure 1 on page 5.

(continued on next page)


**DRAFT REPORT – NOT A PUBLIC RECORD**  
(but these excerpts are from a final report)

## DRAFT Report Phases



## DRAFT Report Reviews

Management	<ul style="list-style-type: none"><li>• Auditors meet with management to review tone, accuracy, and recommendations</li><li>• Any revisions sent to management (and Highlights/Audit letter if not in initial draft)</li></ul>
Quality Control	<ul style="list-style-type: none"><li>• Team references all facts to specific supporting work</li><li>• City Auditor reviews supporting work while in process and drafts of report</li></ul>
Independent Reviewer	<ul style="list-style-type: none"><li>• Auditor not on this team fact-checks the draft to referenced supporting work</li><li>• Team corrects errors or adds corrected reference to supporting work</li></ul>



## AUDIT HIGHLIGHTS

### Scottsdale Road Improvements, Phase 1

October 30, 2015      Audit Report No. 1509

#### WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2014/15 Audit Plan as an audit of a Selected Construction Contract to review its procurement, compliance with terms and contract administration.

This contract represents the \$9.5 million construction cost for the project's Phase 1, totaling \$13 million to date.

#### WHAT WE FOUND

1. Inadequate review of pay requests and contract changes resulted in overpayments totaling about \$275,000.
  - CPM did not adequately track contract costs and changes; overpayment of about \$68,500.
  - Three change requests for additional work were not supported by invoices. Overpayment totaled about \$14K.
  - Calculation errors related to bonds, insurance, and sales tax about \$21,000 and up to \$11,500 in project expenses were supported by the CMAA's records.
  - Reimbursement was not requested for additional work on a telecommunications company, which cost \$7,500.
2. Effective oversight of subcontractor selection and subcosts could result in significant project savings.
  - Even though subcontractor costs represent about \$4 million of construction costs, a subcontractor selection plan had not been submitted for review and final subcontractor selections and costs were not reviewed. Additionally, staff did not verify "buyout" savings we found indications that the CMAA may have realized savings \$143,000 in subcontractor costs.
3. Project management and contract administration should be improved by better documenting cost review and negotiations, changes to scope, inspection measurements, construction delays and the procurement process.
  - Cost proposals may not have been reviewed by the CPM.

#### MANAGEMENT ACTION PLAN

1. Inadequate review of pay requests and contract changes resulted in overpayments totaling about \$275,000.

Recommendations:

The Public Works Division Director should:

  - A. Establish procedures for tracking contract changes.
  - B. Require CPM to more closely review cost proposals for changes, ensuring that proposed amounts are supported by detailed cost estimates, time and materials reports, or invoices.
  - C. Establish procedures for verifying contractor calculations in pay requests and cost proposals.
  - D. Require CPM to seek reimbursements for costs incurred, where applicable.

#### MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: CPM has made strides in this area over the past year to ensure proper documentation is included with all contract changes. CPM will be updating the current Capital Project Management PM Manual to specifically identify the documentation required for contract changes and for uses of contingencies that are a part of larger contracts. Along with the updating and publication of the new manual, CPM employees will be trained on the process and procedures to be adhered to.

RESPONSIBLE PARTY: Derek Earle, PE, City Engineer

COMPLETED BY: 5/27/2016

#### BACKGROUND


In September 2012, the City contracted with Hunter Contracting Co. for the construction of the Scottsdale Road Improvement project, Phase 1. This project is to improve Scottsdale Road between Thompson Peak Parkway and Pinnacle Peak Road, with the first phase involving the construction of a bridge over Bashaide Wash and relocating utilities along

October 30, 2015

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for Scottsdale Road Improvements, Phase 1, which was selected for the construction contract audit included on the Council-approved FY 2014/15 Audit Plan. Our audit found that City staff did not adequately review contractor pay applications and change requests, resulting in overpayments totaling about \$275,000. Oversight of subcontractor selection and final subcontractor costs can be improved to ensure the City realizes the benefits of any buyout savings that occur. Additionally, project management and contract administration can be improved by better documenting cost review and negotiations, changes to scope, inspection measurements, construction delays and the procurement process.

If you need additional information or have any questions, please contact me at (480) 312-7867.



## Scottsdale Road Improvements, Phase 1

October 30, 2015      AUDIT REPORT NO. 1509

CITY COUNCIL

Mayor W.J. "Jim" Lane

Suzanne Klapp

Virginia Korte

Kathy Littlefield

Linda Milhaven

Guy Phillips

Vice Mayor David N. Smith

## Final Report Availability

